



DEPARTMENT OF DEFENSE
Defense Contract Management Agency

INSTRUCTION

Cost Monitoring

OPR: Contracts
DCMA-AQ

September 27, 2011
Change 1, January 5, 2012

SUMMARY OF CHANGE 1:

- *The acronym ACO as used in this instruction could refer to Corporate Administrative Contracting Officer (CACO), Divisional Administrative Contracting Officer (DACO), or Administrative Contracting Officer, unless specified otherwise.*
- *For the Special Programs Directorate, the approval authority for actions herein remains with the appropriate CMO Contracts Director. DACOs and CACOs assigned to the Special Programs Directorate will not be realigned to the cost and Pricing Center.*

PURPOSE. This new instruction:

- a. Establishes the Agency cost monitoring policy a policy, assigns roles and responsibilities for personnel involved, and provides procedures for establishing a cost monitoring program (CMP).
- b. Implements Government policy pursuant to References (a) through (h).
- c. Is established in compliance with DoD Directive 5105.64 (Reference (j)).

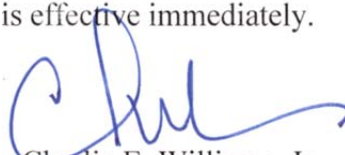
2. APPLICABILITY. This Instruction applies to all DCMA activities.

3. MANAGEMENT INTERNAL CONTROL SYSTEM. This Instruction contains internal management control provisions that are subject to evaluation and testing as required by DCMA Instruction, "Management Internal Control Program" (Reference (k)).

4. RELEASABILITY – UNLIMITED. This Instruction is approved for public release.

5. POLICY RESOURCE PAGE. <https://home.dcmamil/guidebook/306/index.cfm>

6. EFFECTIVE DATE. This Instruction is effective immediately.



Charlie E. Williams, Jr.
Director

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REFERENCES

- (a) [FAR 42.17](#), “Contract Administration and Audit Services”
- (b) [DFARS 231.205-18](#), “Independent research and development and bid and proposal costs”
- (c) [FAR 31.205-18](#), “Independent Research and Development and Bid and Proposal Costs”
- (d) [FAR 31.109](#), “Advance Agreements”
- (e) [FAR 42.704](#), “Billing Rates”
- (f) [FAR 42.801](#), “Notice of Intent to Disallow Costs”
- (g) DCMA Instruction, “[Forward Pricing Rates](#)”
- (h) [Section 2522](#) of title 10, United States Code, “Armament retooling and manufacturing”
- (i) DCMA Instruction, “[Contract Management Boards of Review](#)”
- (j) [DoD Directive 5105.64](#), “Defense Contract Management Agency,” September 27, 2000
- (k) DCMA Instruction, “[Management Internal Control Program](#)”

CHAPTER 1

POLICY

1.1. POLICY. It is DCMA policy that:

1.1.1. The Contract Management Office (CMO) Commander/Director *or Director of Corporate/Divisional Administrative Contracting Officer Group* shall establish a CMP at contractor locations based on all of the following criteria. *(C1)*

1.1.1.1. Sales to the Government to exceed \$200 million during the contractor's previous fiscal year on other than firm fixed-price and fixed-price with economic price adjustment contracts (i.e., sales on cost and flexibly priced contracts must exceed \$200 million).

1.1.1.2. The Government's share of indirect costs allocable to cost and flexibly priced contract sales is expected to be at least 50 percent of the total indirect costs for a particular contractor location.

1.1.2. Contractor locations that do not meet all the criteria above can be approved for a CMP at the Region Commander/Director level ~~or the Director level for the Special Programs Directorate~~ *Special Programs or Internal Directorate levels, or Director, Cost and Pricing Center level*. The CMO Commander/Director shall submit the request, along with supporting data and rationale to the Commander/Director. *(C1)*

1.1.3. Contractor locations that meet the criteria above but DCMA CMO management *or Director of Corporate/Divisional Administrative Contracting Officer Group* determines that a CMP is not necessary, can request a waiver. The CMO Commander/Director shall submit the waiver request with supporting rationale to the Region Commander/Director or Director of Special Programs, *International, Cost and Pricing Center*, as appropriate. *(C1)*

CHAPTER 2

RESPONSIBILITIES

2.1. REGIONAL COMMANDER/DIRECTOR, ~~OR~~ DIRECTOR OF SPECIAL PROGRAMS, *INTERNATIONAL, COST AND PRICING CENTER*. The appropriate Commander/Director shall: *(C1)*

2.1.1. Approve establishment of a CMP at a location that does not meet the criteria for a program in accordance with this policy but a business need (e.g., significant cost/pricing activity) justifies the requirement for a program.

2.1.2. Approve waiver of CMP at a location that meets the criteria for a program but an alternate course of action is justified (e.g., where the rates for a business unit are negotiated at another site).

2.2. CMO COMMANDER/DIRECTOR, *DIRECTOR OF CORPORATE/DIVISIONAL ADMINISTRATIVE CONTRACTING OFFICER GROUP*. The ~~CMO~~ *appropriate* Commander/Director shall: *(C1)*

2.2.1. Establish a CMP when contractor business conditions meet the policy criteria set forth in this instruction.

2.2.2. Submit a request to the Regional Commander/Director, *Directors – Special Programs, International, Cost and Pricing Center, as appropriate, a request* to establish a CMP at a location that does not meet the business criteria for a program in accordance with the policy but a business need (e.g., significant cost/pricing activity) justifies the need to have a program. *(C1)*

2.2.3. Submit a request to waive a CMP requirement based on an assessment of the business conditions at a contractor location (e.g., where the rates for a business unit are negotiated at another site).

2.2.4. Establish a cost monitoring team (CMT) in accordance with the criteria set forth in this instruction.

2.3. CMO CONTRACTS DIRECTOR, *CORPORATE/DIVISIONAL ADMINISTRATIVE CONTRACTING OFFICER GROUP SUPERVISOR*. The ~~CMO-contracts-director~~ *appropriate manager* shall: *(C1)*

2.3.1. Review and approve the cost monitoring report by November 1 of each year.

2.3.2. Review and approve the cost monitoring plan by December 1 of each year.

2.3.3. Review and concur with business documents as required by specific instructions relating to reviews.

2.3.4. Ensure that Boards of Review are properly requested when required in conjunction with the various cost monitoring efforts.

2.4. ADMINISTRATIVE CONTRACTING OFFICER, DIVISION ADMINISTRATIVE CONTRACTING OFFICER, CORPORATE ADMINISTRATIVE CONTRACTING OFFICER (ACO/DACO/CACO, hereafter ACO). The ACO shall:

2.4.1. Coordinate with the contractor to identify appropriate points of contact for team members and enter into a memorandum of agreement regarding the timing and continued support of forward pricing rate proposals/agreements.

2.4.2. Keep other ACOs administering contracts and business issues within the same corporation advised of significant matters affecting major corporate customers or having corporate-wide impact.

2.4.3. Negotiate Forward Pricing Rate Agreements (FPRA) or establish Forward Pricing Rate Recommendations (FPRR) for direct labor rates, overhead rates, pricing factors, general and administrative rates, and cost of money. (See FAR 42.17 at Reference (a))

2.4.3.1. In conjunction with the rate review and negotiation, the ACO shall:

2.4.3.1.1. Determine the allowability and allocability of proposed Independent Research and Development/Bid and Proposal (IR&D/B&P) costs in accordance with DFARS 231.205-18 (Reference (b)) and FAR 31.205-18 (Reference (c)).

2.4.3.1.2. With the assistance of engineering personnel, determine whether IR&D/B&P projects proposed to be performed by major contractors are of potential interest to the Department of Defense (DoD). (See DFARS 231.205-18(a) at Reference (b))

2.4.3.1.3. Notify the contractor promptly of any proposed IR&D/B&P activities that are not of potential interest to DoD.

2.4.4. Ensure proper preparation of the FPRA pre-negotiation objective position, negotiation memorandum and board of review documentation for FPRAs, final overheads, cost accounting standards issues, and business systems, as required.

2.4.5. Negotiate advance agreements when appropriate for control and resolution of complex issues of cost allowability in advance of cost incurrence. (See FAR 31.109 at Reference (d))

2.4.6. Establish billing rates for interim vouchers on cost reimbursable contracts or progress payments on fixed price contracts. (See FAR 42.704 at Reference (e))

2.4.7. Issue a notice of intent to disallow or not recognize costs, as required. (See FAR 42.801 at Reference (f))

2.4.8. Advise customers immediately of a need to amend aN FPRA and provide interim rates (FPRR) for use. If recommended rates have not been prepared, the ACO will advise the customers when they will be available.

2.4.9. Establish final indirect rates.

2.4.10. Approve contractor business systems as required and maintain a current summary status of all systems. The current status of business systems must be loaded into the CBAR eTool. Any updates or changes in status must be entered immediately into the CBAR eTool. However, regardless of the availability or limitations of the eTool, a current summary must be available for customers upon request.

2.4.11. Encourage and advocate contractor cost reduction initiatives and monitor progress toward achieving the stated goals.

2.4.12. Ensure the adequacy and accomplishment of the annual cost monitoring plan.

2.5. COST MONITORING SPECIALIST (CMS). The CMS shall:

2.5.1. Act as ACO's delegated representative to develop the annual cost monitoring plan, ensure progress toward completion of the plan, and prepare the annual report.

2.5.2. With the exception of EVMS, participate in business system reviews conducted by DCMA functional specialists.

2.5.3. Advise the ACO on advance agreements.

2.5.4. Participate in should cost reviews.

2.5.5. Compile a listing of current weaknesses and deficiencies in the contractor's business systems as identified in recent audits and reviews. The CMS, in coordination with other DCMA functional specialists, shall monitor corrective action plans until corrections are completed.

2.5.6. Perform in depth analysis of the contractor's forward pricing rate proposal. The CMS shall coordinate audit and technical reviews as required. The CMS shall validate with customers that the contractor's proposed business base is consistent with customer projections of future contract business. The CMS shall prepare a detailed prenegotiation memorandum that will be reviewed and approved in accordance with the requirements set forth in the DCMA Instruction, "Forward Pricing Rates," (Reference (g)).

2.5.7. Test the validity of the FPRA/FPRR on a periodic basis but not less than quarterly. The CMS shall identify significant high dollar/volume or sensitive item indicators for tracking and compare the actual expenditures with the projected expenditures by individual overhead cost element. Use variance analyses to explain the differences between actual and projected expenditures. Any significant variance should be addressed with the contractor. The CMS and contractor should develop criteria for significant variances. In the absence of agreement with the

contractor, the CMS should consult with the auditor to develop significant variance criteria. In order to identify the impact due to rate changes, the CMS may consider using before and after wrap rates. When unjustifiable variances are identified and the contractor fails to take corrective action, the CMS shall recommend that the ACO cancel the FPRA, modify the FPRA in part, or rescind the FPRA and establish a FPRR.

2.5.8. Monitor performance of actions identified in the cost monitoring plan.

2.5.9. Keep the cost/price analysts advised on the status of contractor business systems, FPRA/FPRRs and final overhead rates, Cost Accounting Standards issues, and other pertinent information that could have a potential impact on the negotiation of a pricing action.

2.5.10. When variances in data are identified that are not understood by, or cannot be analyzed by the members of the current CMT, request additional support from other functional elements that have the required expertise in the data (e.g., earned value specialist, industrial engineer).

2.5.11. Maintain documented files in Electronic Document Workflow (EDW) to support cost monitoring review project findings by fiscal year, including completed work papers sufficient to support review recommendations and conclusions, and identify significant cost issues addressed in Government reviews of contractor operations.

2.5.12. Develop and maintain cost models that assess the cost impact on contracts as a result of changes in direct or indirect rates. At a minimum, a cost model shall be established for all Acquisition Category I (ACAT 1) program flexibly priced contracts. The model will compare the total cost of the contract as originally established, using the rates in effect at the time of contract definitization versus the total cost using current rates. The definitized value of the direct elements of cost will remain unchanged in order to isolate the impact of the rate changes.

2.5.13. Files supporting FPRA negotiations shall be maintained in EDW unless the files are classified. Classified files shall be maintained in accredited safes and handled in accordance with DoD and program security guidelines. Files should include documentation that support cost monitoring reviews to include cited conditions cause(s), effect(s), analyst's conclusions and all contractor correspondence. and bases. Additionally, there needs to be a file maintained for FPRA reviews including a record of all FPRAs (current and historical), FPRRs (current and historical), and final overhead rates. The file shall include all historical and currently forecasted direct and indirect rates, pools, and bases. Additionally, the file shall include all actual rates, pools, and bases after closeout of the contractor's fiscal year. Further, the database shall contain historical and projected headcount information identified as direct, indirect, and total headcount. If a file does not exist currently at a contractor's location, the CMS will collect data for the last 5 years, as available, and create a record. The CMS will update and continually maintain the file.

2.5.14. Maintain the following information in the fiscal year EDW or a secure file for cost monitoring.

2.5.14.1. Description of the corporate structure and the relationship of the business unit to legal entities to which it reports and entities that report to it.

2.5.14.2. Summary of the business unit's major products and customers in the context of the larger corporation.

2.5.14.3. Organization chart for the business unit's top management.

2.5.15.4. History of sales and projected sales per major U.S. Government customer and the percentage of fixed price versus flexibly priced work.

2.5.14.5. Narrative summary of significant issues for each year (i.e., major contract awards, mergers, strikes, and major economic changes).

2.5.14.6. Current and complete copy of the contractor's latest disclosure statement. Identify all changes not currently deemed adequate and compliant.

2.5.14.7. Any information unique to the contractor that would be important to know prior to award of a contract.

2.5.14.8. Summary of the status of the contractor's business systems.

2.6. SUPPORT TEAM MEMBERS. The support team members shall:

2.6.1. Review memorandums and reports of pricing/cost reviews and system reviews performed on the contractor's operations in the past 3 years and prepare a listing of weaknesses that have not been corrected and prioritize the issues to be resolved. This list will form the basis of items to be addressed in the plan.

2.6.2. Submit additional problem statements for consideration for incorporation into the plan.

2.6.3. Prepare reports on labor hours, direct material, labor rates, and estimating factors in support of FPRA/FPRR development and ongoing surveillance.

2.6.4. Prepare reports on individual projects assigned to them for review.

2.6.5. Prepare a quarterly report to CMS on the status of assigned projects. It should identify completed projects, on time projects, delayed projects, and resolution of any documented findings.

CHAPTER 3

PROCEDURES

3.1. ESTABLISH COST MONITORING TEAM (CMT). The CMO Commander/Director *or Director of Corporate/Divisional Administrative Contracting Officer Group* shall establish a CMT. *(C1)*

3.1.1. The CMT is a group of functional specialists under the leadership of the ACO. To the extent practicable, the team membership shall include a full time CMS, a technical support team member who spends at least 60 percent of the year on cost monitoring activities, and other support team members, as required.

3.1.2. The CMS shall be a cost/price analyst. All on-site cost/price analysts may be engaged in cost monitoring efforts, as needed.

3.2. PREPARE ANNUAL COST MONITORING PLAN.

3.2.1. The CMS shall develop the annual cost monitoring plan . At a minimum, the plan will include:

3.2.1.1. FPPA/FPPR. Strategy for developing, negotiating, and monitoring overhead rate indirect expense pools, bases, and other estimating rates and factors. Conduct a separate review in conjunction with the FPPR review, to determine whether proposed IR&D/B&P costs are limited to those for projects that are of potential interest to DoD. IR&D activities intended to accomplish any of the following are of potential interest to DoD.

3.2.1.1.1. Enable superior performance of future U.S. weapon systems and components.

3.2.1.1.2. Reduce acquisition costs and life-cycle costs of military systems.

3.2.1.1.3. Strengthen the defense industrial and technology base of the United States.

3.2.1.1.4. Enhance the industrial competitiveness of the United States.

3.2.1.1.5. Promote the development of technologies identified as critical according to section 2522 of title 10, United States Code (Reference (h)).

3.2.1.1.6. Increase the development and promotion of efficient and effective applications of dual-use technologies.

3.2.1.1.7. Provide efficient and effective technologies for achieving such environmental benefits as: improved environmental data gathering, environmental cleanup and

restoration, pollution reduction in manufacturing, environmental conservation, and environmentally safe management of facilities.

3.2.1.2. Advance Agreements. In accordance with reference (d), review the strategy, purpose, and intended outcome for entering into, amending or monitoring advance agreement(s) during the reporting period.

3.2.1.3. Final Overhead Rates. List contractor fiscal year (CFY) overhead rates to be settled during the period.

3.2.1.4. Contractor Cost Reduction Initiatives. Strategy for influencing and monitoring contractor cost reduction initiatives.

3.2.1.5. Discretionary Reviews. In October of each year, the CMS will request input for discretionary reviews from functional areas due November 1.

3.2.1.5.1. Discretionary reviews will be prioritized based on the significance of the issues impacting contractor operations. Significant areas are those impacting material acquisition, manufacturing operations, quality assurance, labor utilization, contractor facilities, and equipment.

3.2.2. Identify and obtain support required from outside activities.

3.2.3. Ensure that the functional lead and supporting resources are identified by name for each review area in the plan.

3.2.4. Coordinate planned activities with the Defense Contract Audit Agency to preclude duplicate effort. EVMS activity will be coordinated separately.

3.2.5. Notify the contractor of proposed reviews. EVMS review notification will be provided by the DCMA Earned Value Management Center.

3.2.6. Document each review using the information memorandum format and address the following:

3.2.6.1. Objective.

3.2.6.2. Problem statement.

3.2.6.3. Background.

3.2.6.4. Names of personnel assigned to lead and support the review.

3.2.6.5. Planned start date, duration, and completion date.

3.2.7. The plan will be reviewed and approved by the CMO Contracts Director, *or Corporate/Divisional Administrative Contracting Officer Group supervisor, as applicable*, by December 1. A copy of the approved plan sent to the Directorate Contracts Director, *or Director, Cost and Pricing Center*, or a designee. *(CI)*

3.3. Conduct Cost Monitoring Activities. The CMT shall conduct cost monitoring in accordance with the cost monitoring plan and the processes outlined in instructions that govern the specific review areas.

3.3.1. Any amendments or deviations to the plan will be reviewed and approved by the CMO Contracts Director, *or Corporate/Divisional Administrative Contracting Officer Group Supervisor*, and an approved plan forwarded to the Directorate Contracts Director or *Director of Corporate/Divisional Administrative Contracting Officer Group*, or a designee. (C1)

3.3.2. The Contracts Director will ensure that completed cost monitoring activities are properly reviewed and approved to include the Contract Management Board of Review as required. Refer to the specific instruction delineating policy for the performed activity and Contract Management Boards of Review (Reference (i)), for further guidance.

3.4. PREPARE ANNUAL COST MONITORING REPORT.

3.4.1. The annual Cost Monitoring Report shall include the results of:

3.4.1.1. FPRA/FPRR. Discuss any agreements or recommendations made during the period and any significant impediments to rate negotiation.

3.4.1.2. Advance Agreements. Discuss any advance agreements signed, modified, or canceled during the period.

3.4.1.3. Final Overhead Rates. List CFY overhead year(s) settled during the period and any significant issues.

3.4.1.4. Cost Reduction Initiatives. Discuss all attempts and accomplishments to incorporate cost reduction activities into FPRA/FPRR. Provide impact of the activity on rates and factors.

3.4.1.5. Discretionary Reviews. Discuss in depth the results of each review.

3.4.2. Format. The cost monitoring report will address each planned event in the information memorandum format as follows:

3.4.2.1. Problem statement.

3.4.2.2. Review process.

3.4.2.3. Outcome.

3.4.3. The report will be prepared and submitted to the Contracts Director *or Corporate/Divisional Administrative Contracting Officer Group Supervisor* for review and approval by November 1. (C1)

3.4.4. The approved report will be provided to the respective Directorate Contracts Director, *Center Contracts Director, or Director of Corporate/Divisional Administrative Contracting Officer Group*, or their designee. *(C1)*

GLOSSARY

ACRONYMS

ACO	Administrative Contracting Officer
CFY	Contractor Fiscal Year
CMO	Contract Management Office
CMP	Cost Monitoring Program
CMS	Cost Monitoring Specialist
CMT	Cost Monitoring Team
EDW	Electronic Document Workflow
FPRA	Forward Pricing Rate Agreement
FPRR	Forward Pricing Rate Recommendation
IR&D/B&P	Independent Research and Development/Bid and Proposal